



Senate

General Assembly

File No. 10

February Session, 2012

Senate Resolution No. 4

Senate, March 5, 2012

The Senate Committee on Appropriations reported through SEN. HARP of the 10th Dist., Chairperson of the Committee on the part of the Senate, that the resolution ought to be adopted.

**RESOLUTION PROPOSING APPROVAL OF A COLLECTIVE
BARGAINING AGREEMENT BETWEEN THE STATE EMPLOYEES
BARGAINING AGENT COALITION AND THE STATE OF
CONNECTICUT.**

Resolved by the Senate:

- 1 That the collective bargaining agreement between the State
- 2 Employees Bargaining Agent Coalition and the State of Connecticut,
- 3 concerning contributions to the State Employees Retirement System,
- 4 submitted to this assembly February 6, 2012, for approval, as provided
- 5 in subsection (b) of section 5-278 of the general statutes, is approved.

APP *Senate Favorable*

The following Fiscal Impact Statement and Bill Analysis are prepared for the benefit of the members of the General Assembly, solely for purposes of information, summarization and explanation and do not represent the intent of the General Assembly or either chamber thereof for any purpose. In general, fiscal impacts are based upon a variety of informational sources, including the analyst's professional knowledge. Whenever applicable, agency data is consulted as part of the analysis, however final products do not necessarily reflect an assessment from any specific department.

OFA Fiscal Note

State Impact:

| Agency Affected | Fund-Effect | FY 13 \$ | FY 14 \$ |
|----------------------------------------------------------------------------------------------|--------------------|-----------------|-----------------|
| State Comptroller - Fringe Benefits - State Employees Retirement Contributions Account | GF & TF - Cost | 97,900,000 | 101,900,000 |

Note: GF=General Fund; TF = Transportation Fund

Municipal Impact: None

Explanation

Approval of the resolution will result in an additional estimated cost to the State Employees Retirement Contributions accounts of \$97.9 million in FY 13 and \$101.9 million in FY 14.¹ The resolution proposes approval of an Agreement between the State of Connecticut and the State Employees Bargaining Agent Coalition (SEBAC). The Agreement provides for additional pension funding above the present level by eliminating two negotiated adjustments (attributed to SEBAC IV and V) which have been used to reduce the state's annual required contribution (ARC). Funding for the increased FY 13 cost is not included in the Original FY 13 Budget however it is included in the Governor's Revised FY 13 Budget. The table below outlines the additional annual costs as well as savings for the next twenty years as projected by the pension fund's actuaries. It should be noted that future actuarial estimates may differ significantly from these projections if actual plan experience differs from current assumptions.

Fiscal Impact of Eliminating SEBAC IV & V Adjustments

¹ Under the Agreement, the gross increase in the ARC would be \$123.4 million. After accounting for various other fund recoveries and reimbursements, the State's actual additional contribution to the FY 13 ARC would be \$97.9 million (GF & TF).

| Fiscal Year | Gross ARC Before Adjustments Eliminated | Gross ARC After Adjustments Eliminated | Additional Gross ARC Cost / (Savings) | Est. GF Portion (Net After Recoveries & Reimbursements) | Est. TF Portion (Net After Recoveries & Reimbursements) |
|--------------------------------------------------|------------------------------------------------|-----------------------------------------------|----------------------------------------------|--------------------------------------------------------------------|--------------------------------------------------------------------|
| FY 12 | 926,372,000 | n/a | n/a | n/a | n/a |
| FY 13 | 936,259,000 | 1,059,652,000 | 123,393,000 | 85,249,879 | 12,738,106 |
| FY 14 | 1,027,068,000 | 1,155,397,000 | 128,329,000 | 88,660,068 | 13,247,659 |
| FY 15 | 1,117,719,000 | 1,240,960,000 | 123,241,000 | 85,144,865 | 12,722,415 |
| FY 16 | 1,164,885,000 | 1,281,119,000 | 116,234,000 | 80,303,862 | 11,999,068 |
| FY 17 | 1,212,660,000 | 1,320,433,000 | 107,773,000 | 74,458,318 | 11,125,622 |
| FY 18 | 1,278,280,000 | 1,375,970,000 | 97,690,000 | 67,492,165 | 10,084,734 |
| FY 19 | 1,348,789,000 | 1,434,510,000 | 85,721,000 | 59,223,010 | 8,849,150 |
| FY 20 | 1,423,758,000 | 1,495,294,000 | 71,536,000 | 49,422,863 | 7,384,804 |
| FY 21 | 1,504,520,000 | 1,559,242,000 | 54,722,000 | 37,806,390 | 5,649,062 |
| FY 22 | 1,592,131,000 | 1,626,885,000 | 34,754,000 | 24,010,878 | 3,587,725 |
| FY 23 | 1,689,498,000 | 1,700,446,000 | 10,948,000 | 7,563,765 | 1,130,184 |
| FY 24 | 1,796,992,000 | 1,779,380,000 | (17,612,000) | (12,167,796) | (1,818,122) |
| FY 25 | 1,917,250,000 | 1,865,056,000 | (52,194,000) | (36,059,843) | (5,388,091) |
| FY 26 | 2,051,206,000 | 1,956,576,000 | (94,630,000) | (65,378,069) | (9,768,844) |
| FY 27 | 2,204,265,000 | 2,056,543,000 | (147,722,000) | (102,058,323) | (15,249,638) |
| FY 28 | 2,383,154,000 | 2,167,078,000 | (216,076,000) | (149,282,803) | (22,305,958) |
| FY 29 | 2,601,547,000 | 2,293,456,000 | (308,091,000) | (212,854,218) | (31,804,850) |
| FY 30 | 2,887,435,000 | 2,445,821,000 | (441,614,000) | (305,102,722) | (45,588,696) |
| FY 31 | 3,318,167,000 | 2,652,680,000 | (665,487,000) | (459,772,324) | (68,699,554) |
| FY 32 | 4,498,776,000 | 3,034,334,000 | (1,464,442,000) | (1,011,755,153) | (151,177,277) |
| Net Budget Impact of Negotiated Agreement | | | | (1,695,095,188) | (253,282,501) |

Source: Office of Policy and Management – Cost Estimate of Negotiated Agreement Dated 2/3/2012 and Actuarial Estimate dated 1/20/2012.

The Out Years

The additional costs identified above will gradually decrease beginning in FY 15 until a savings is achieved beginning in FY 24. The net impact over the current 20-year amortization period is a savings of approximately \$1.95 billion (General & Transportation Funds).

OFA Bill Analysis**SR 4*****RESOLUTION PROPOSING APPROVAL OF A COLLECTIVE BARGAINING AGREEMENT BETWEEN THE STATE EMPLOYEES BARGAINING AGENT COALITION AND THE STATE OF CONNECTICUT.*****SUMMARY:**

The resolution proposes approval of an Agreement between the State of Connecticut and the State Employees Bargaining Agent Coalition (SEBAC). The Agreement provides for additional pension funding above the present level by eliminating two negotiated adjustments (attributed to SEBAC IV and V) which have been used to reduce the state's annual required contribution (ARC).

EFFECTIVE DATE: Upon passage

BACKGROUND

The State Employees Retirement System (SERS) provides for a defined benefit plan for its members, whereby retirees receive a fixed pension benefit that is determined by tier membership, the number of years the employee worked, and his or her final average salary. The State is statutorily required to fund SERS on an actuarial reserve basis.² Nevertheless, superseding collective bargaining agreements and “notwithstanding” language in budgets over the years has allowed funding lower than the required level.

Actuarial valuations are prepared at least every two years to

² Per CGS 5-156a.

determine the state's annual required contribution (ARC).³ The ARC is comprised of the normal ("current service") cost plus the portion of the unfunded actuarial liability (past unpaid bill) amortized for that year, and if paid on a consistent basis, should provide sufficient resources to fund both the normal cost for each year and pay off the unfunded liability at the end of the amortization period. However, under interpretations of SEBAC IV and V, negotiated by the State and the coalition in 1995 and 1997, respectively, the ARC is further reduced each year.⁴ Approval of the resolution would eliminate these additional ARC reductions as of FY 13.

The SEBAC IV and V adjustments both reduce the State's unfunded liability payment as a result of how the pension fund's assets are treated. Per the SEBAC IV Memorandum of Agreement, the difference between the market value of assets and the actuarial value of assets as of June 30, 1995 was amortized on a level percent of pay basis over 36 years. The resulting amount was used to reduce the amount of the State's contribution towards the unfunded liability. In a similar fashion to the SEBAC IV adjustment, SEBAC V "captured" market value investment gains as of June 30, 1996. This gain was also amortized and used to reduce the State's contribution towards the unfunded liability.

Since the SEBAC IV and V Agreements, it is unclear if these provisions have been interpreted correctly in terms of applying these reductions to the ARC after 1996.⁵ According to the State's pension plan actuaries, the impact of these adjustments has been to exacerbate the back-loading of the amortization schedule already inherent in the level percent-of-payroll method, which leads to further growth each

³ Based on the most recent valuation, the State's ARC was determined to be \$926.4 million for FY 12. After accounting for various recoveries and reimbursements, the State's actual FY 12 contribution to the ARC is \$743.8 million.

⁴ It should be noted that SEBAC IV and V were not the first instances of the state and SEBAC agreeing to reduce ARC contributions - both SEBAC II and III also had negotiated contribution levels, however these reductions were time-limited.

⁵ Source: Post Employment Benefits Commission Final Report, page 21

year in the ARC and delays in improving the plan's funded ratio.⁶ The State's estimated ARC for FY 32 is currently a "balloon payment" of \$4.5 billion.

COMMITTEE ACTION

Appropriations Committee

Senate Favorable

Yea 6 Nay 0 (02/23/2012)

⁶ Funded ratio, the ratio of the pension plan's assets to its liabilities, is one indicator of the fiscal strength of a pension fund's ability to meet its obligations to its members. As of the latest SERS valuation, the plan is funded at 48%.